CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 18, 2001

S. 277
Fair Minimum Wage Act of 2001

As introduced in the Senate on February 7, 2001

SUMMARY

S. 277 would amend the Fair Labor Standards Act (FLSA) to increase the federal minimum wage in three steps from $5.15 per hour to $6.65 per hour by January 2003. The bill also would apply the minimum wage provisions of the FLSA to the Commonwealth of the Northern Mariana Islands (CNMI). The Congressional Budget Office (CBO) estimates that enactment of the bill would increase direct spending by $16 million over the 2002-2004 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

S. 277 would impose mandates, as defined by the Unfunded Mandates Reform Act (UMRA), on state and local governments, Indian tribes, and private-sector employers because it would require them to pay a higher wages than they are required to pay under current law. S. 277 also would preempt the minimum wage laws of the CNMI. CBO estimates that the costs to state, local, and tribal governments and to the private sector would exceed the thresholds established by UMRA. (The thresholds are $56 million for intergovernmental mandates and $113 million for private-sector mandates, both adjusted annually for inflation.)

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in table 1. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF S. 277

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
DIRECT SPENDING						
Spending Under Current Law						
Budget Authority	0	0	0	0	0	0
Estimated Outlays	785	585	45	45	0	0
Proposed Changes						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	12	2	2	0	0
Spending Under S. 277						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	785	597	47	47	0	0

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes S. 277 will be enacted on September 1, 2001.

The wage rate increases required by S. 277 would result in additional direct spending under the Welfare-to-Work grant program, which provides funding to states and nonprofit organizations to subsidize the employment of individuals attempting to leave welfare for gainful employment. Funding totaling $3 billion has already been allocated to grantees, and CBO estimates that about 8 percent of the total will ultimately not be spent under current law.

Program data through December 2000 indicate that about 15 percent of the state grants and 20 percent of the grants to nonprofit organizations had been spent on subsidized employment. CBO assumes that grantees would continue to support the same number of workers in subsidized employment, and that the increased minimum wage would raise the costs of supporting them in those jobs. As a result, funds for this program would be spent more quickly than under current law, and some funds that otherwise would not be used would be spent as well. CBO estimates that additional spending would total $16 million during the 2002-2004 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year and the succeeding four years are counted.

TABLE 2. PAY-AS-YOU-GO EFFECTS OF S. 277

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in receipts	Not applicable										
Changes in outlays	0	12	2	2	0	0	0	0	0	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill would impose both intergovernmental and private-sector mandates, as defined in UMRA, because it would require employers to pay higher wages than they are required to pay under current law. In addition, S. 277 would preempt the minimum wage laws of the CNMI. This preemption also is considered a mandate.

CBO estimates that the costs to state, local, and tribal governments would exceed the threshold established by UMRA for intergovernmental mandates ($56 million in 2001, adjusted annually for inflation) in each year beginning in fiscal year 2002. We also estimate that the costs to the private sector would exceed the annual threshold established in the law for private-sector mandates ($113 million in 2001, adjusted annually for inflation) in each year beginning in fiscal year 2002. On May 9, 2001, CBO issued mandate statements that provide more detail on those mandates and their estimated costs. Table 3 summarizes the estimated costs of those mandates.

TABLE 3. ESTIMATED COSTS OF MANDATES IN S. 277

	By Fiscal Year, in Billions of Dollars				
	2002	2003	2004	2005	2006
COSTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS					
Increase the federal minimum wage	0.3	0.5	0.5	0.4	0.4
DIRECT COST TO THE PRIVATE SECTOR					
Increase the federal minimum wage	3.8	6.9	7.0	6.2	5.5
Apply the minimum wage to the CNMI	0.1	0.1	0.2	0.2	0.2

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